



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Upcoming Financial Transactions & Financial Disclosure Policy

May 31st, 2022

Presented By:
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Agenda

- **Houston Airport System (HAS)**
 - a) HAS Debt Service Reserve Fund Requirement contribution - Surety Policy
- **Combined Utility System (CUS)**
 - a) Commercial Paper Program, Series B-4
- **General Obligation (GO)**
 - a) Tax and Revenue Anticipation Notes (TRANS), Series 2022
- **Financial Disclosure Policy**



HAS Surety Policy Renewal

Background:

- Section 3.09 of the Master Trust Indenture states that the City shall establish and maintain a balance in the Subordinate Lien Reserve Fund Participant Account equal to the Reserve Fund Requirement.
- The Subordinate Lien Debt Service Fund (“DSRF”) Requirement is \$207,105,068.
- Currently, the requirement is satisfied by a combination of cash and surety policies.
- One of the surety policies expires July 1, 2022.
- The DSRF balance after 7/1/2022 is approximately \$194,353,367.
- Leaving a shortfall of **(\$12,751,701)**.
- Based on preliminary estimates of cost, the analysis performed by the City’s Financial Advisor shows it would be more advantageous to fund the shortfall with a new surety policy instead of cash.



HAS Surety Policy Renewal

Potential Solutions:

- HAS can deposit Cash to Satisfy the DSRF requirement
- HAS can purchase a new surety policy from a qualifying insurer that meets the minimum rating requirement as defined in the Indenture.

Next Steps:

- The City will review quotes provided by providers that meet the indenture requirements.
- An RCA will be presented to City Council in June 2022.



CUS Variable Rate Exposure Summary

Liquidity Type	Series	Size (\$ millions)	Bank / Dealer	Expiration	Requires Bank Facility
Commercial Paper ⁽¹⁾	B-1	100.00	Bank of America	8/19/2027	Y
	B-2	75.00	Morgan Stanley	1/1/2029	N
	B-3	75.00	Sumitomo	1/10/2025	Y
	B-4	100.00	PNC Bank	7/12/2022	Y
	B-5	250.00	Morgan Stanley	1/1/2030	N
	B-6	100.00	Bank of America	8/19/2027	Y
Subtotal		700.00			
Variable Rate Demand Bonds	2004B-2	100.00	Sumitomo	3/31/2026	Y
	2004B-3	75.00	Sumitomo	1/28/2025	Y
	2004B-4	75.00	PNC Bank	6/19/2023	Y
	2004B-5	100.00	UBS	3/28/2025	Y
	2004B-6	78.33	Sumitomo	1/28/2025	Y
	2012A	125.00	TD Bank	4/18/2025	Y
	2012B	100.00	TD Bank	5/24/2024	Y
	2018C	249.08	Barclays	7/28/2025	Y
Subtotal		902.41			
Total Debt Outstanding⁽²⁾				\$7,089.5	
Total Commercial Paper Outstanding⁽²⁾				\$0.0	
Total Unhedged Variable Rate Debt⁽²⁾				0%	

⁽¹⁾ The Series B-2 and B-5 are an Extendible Commercial Paper product.

⁽²⁾ As of April 30, 2022, Monthly Financial Report.



CUS Commercial Paper, Series B-4

Background:

- Commercial Paper programs have provided a cost-effective method of accessing cash and providing interim financing for the Combined Utility System's (CUS) capital Improvement program (CIP).
- The Commercial Paper Series B-4 facility is a Direct Pay Letter of Credit Facility structured as a reimbursement agreement not to exceed \$100 million.
- The current liquidity facility expires on July 12, 2022.



CUS Commercial Paper, Series B-4

Next Steps:

- The City has reached out to the current liquidity provider for a renewal proposal and is recommending renewing the Series B-4 with PNC Bank for an additional three-year term.



Tax and Revenue Anticipation Notes (TRANS), Series 2022

Background:

- Each year the City sells Tax and Revenue Anticipation Notes (TRANS) to help manage working capital needs during the year. This need for working capital is caused by the timing difference during the City's fiscal year between the collections of revenues versus expenditures. The major revenue source for the General Fund is ad valorem taxes, which are largely collected during December, January and February.
- The TRANS provides an efficient, cost-effective way to address this temporary cash shortfall. The actual sale of the notes is done on a competitive basis through an auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.



Tax and Revenue Anticipation Notes (TRANS), Series 2022

- Historically, the TRANS ordinance is structured to allow additional supplemental issuances, separated in time from the initial issuance, enabling the City to comply with tax laws and arbitrage regulations. The initial borrowing is based on an estimated monthly cash flow analysis prepared prior to the beginning of the fiscal year, which projects the cash flows (and predicts the maximum shortfall) during the fiscal year.
- The first TRANS issue is sized conservatively because it is based on an early estimate of cash flows. If the City's initial borrowing does not cover its shortfall, it may elect to borrow additional funds through the issuance of supplemental notes. The last time the City used the supplemental borrowing was in FY2009 for unexpected Ike-related expenditures.



Tax and Revenue Anticipation Notes (TRANS), Series 2022

Next Steps:

- For FY2023, the total authorized size (primary and supplemental) of the TRANS is currently being calculated.
- An RCA will be presented to City Council for authorization of the sale in July 2022.
- The competitive sale process is expected to occur in August 2022. The results will be presented to City Council by the Controller's office on the date of sale as part of a motion to accept the winning bid or bids.
- The closing is planned for August/September 2022.



Financial Disclosure Policies

- The City's financial policies provide for a written disclosure policy, which will be updated periodically
- K. Accounting, Auditing, and Financial Reporting Policies
 - *"7. At least every two years, the Finance Working Group shall develop and update a written disclosure policy consistent with federal securities law and the City's continuing disclosure undertakings with respect to the City's outstanding debt."*



Financial Disclosure Policies

- It is the objective of the City of Houston to
 - i. ensure that the City's financial disclosures for and relating to debt obligations are fair and accurate and comply with all applicable federal and state securities laws,
 - ii. satisfy in a timely manner all contractual obligations undertaken by the City pursuant to continuing disclosure undertakings entered into upon the issuance of debt obligations, and
 - iii. promote best practices relating to financial disclosures by the City.

- The document titled *Amended and Restated Financial Disclosure Procedures and Policies* lays out the General Principles, Representatives, Duties of the Disclosure Committee, Annual Filing Requirements, Event Notices, Document Retention and other Processes for Compliance.



Financial Disclosure Policies

- These procedures apply to all disclosures in City debt offering, unless specifically exempted by federal securities law.
- They include procedures for the preparation, review, revision, updating and approval of any disclosure prior to any filing with EMMA (Electronic Municipal Market Access), the preparation of an offering document pertaining to the issuance of debt, or other dissemination to the public or to a rating agency.
- The policies operate as a living document in that recommendations and suggestions for improvement are solicited and considered regularly.
- In conclusion, the Finance Working Group has reviewed and has determined no updates are needed at this time.
- In accordance with the financial disclosure policy, the Finance Working Group will continue to review and update as necessary, every two years.



Finance Department

Questions?